

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Parcel Select
Parcel Select Contract 24

Docket No. MC2018-13

Competitive Product Prices
Parcel Select Contract 24 (MC2018-13)
Negotiated Service Agreement

Docket No. CP2018-26

PUBLIC REPRESENTATIVE COMMENTS ON
CONTINUATION OF PARCEL SELECT CONTRACT 24

(June 27, 2018)

I. Introduction

In Order No. 4196, the Commission conditionally approved Parcel Select Contract 24 (Contract) until June 30, 2018.¹ Conditional approval was given because of concerns about the Postal Service's financial model and therefore its compliance with 39 U.S.C. § 3633(a). Pursuant to the Commission's June 1, 2018 Procedural Order, the Public Representative hereby provides comments on whether to approve continuation of the Contract.²

¹ Order Conditionally Adding Parcel Select Contract 24 to the Competitive Product List, October 31, 2017 (Order No. 4196). In addition to the grant of conditional approval, Order No. 4196 required the Postal Service to file quarterly reports to assist the Commission in determining whether the Contract should be continued. *See e.g.* Second Quarterly Report of the United States Postal Service in Response to Order No. 4196, Filed Under Seal, April 30, 2018.

² Procedural Order, June 1, 2018 (Order No. 4629). The original deadline for filing comments has been extended to June 27, 2018. *See* Order Granting In Part Motion to Extend Comment Deadline, June 22, 2018.

II. Comments

Under 39 U.S.C. § 3633(a), competitive products must not subsidize market dominant products; each competitive product must cover its attributable costs; and all competitive products must collectively contribute an appropriate share of the institutional costs of the Postal Service.

The Public Representative has reviewed the Postal Service's Request, Quarterly Data Reports, and Responses to Information Requests. The Public Representative has also reviewed the supporting financial models for the contract filed separately under seal. For the reasons that follow, the Public Representative supports continuation of the Contract.

Parcel Select Contract 24 is based on the Customized Delivery market test previously authorized by the Commission.³ To support the addition of the Contract to the competitive product list, the Postal Service presented a new cost model unique to the agreement. In prior comments, the Public Representative expressed concerns about the reliability of this cost model, given the limited data and questionable assumptions of the original model.⁴ The quarterly reports subsequently submitted by the Postal Service, in conjunction with the Postal Service's Responses to Information Requests, have ameliorated these concerns.

The Public Representative, in his original comments, expressed concern that the Hub delivery costs are reliant on one quarter of data for estimating the annual costs of a delivery type. PR Comments at 4. In its Quarterly Reports, the Postal Service has provided a detailed model for estimating Hub delivery costs. These costs are also estimated on a quarterly basis using quarterly data, ensuring that the financial model will properly reflect any potential seasonal variability in volume.

While the cost data remain somewhat volatile, the volatility is clearly tied to delivery density; that is, the greater the density of deliveries, the lower the cost of each delivery. The density of deliveries has increased since the agreement began, improving

³ Docket No. MT2014-1, Order Authorizing Customized Delivery Market Test, October 23, 2014; Order Authorizing Extension of Customized Delivery Market Test and Updating Data Collection Plan, September 28, 2016.

⁴ Public Representative Comments on Postal Service Request to Add Parcel Select Contract 24 to the Competitive Product List, October 26, 2017 (PR Comments)

cost coverage and providing confidence that the agreement complies and will continue to comply with 39 U.S.C. § 3633(a).

Moreover, as this agreement has progressed in its duration, and additional data have become available, the possible range of cost coverage has narrowed. This range has narrowed for two reasons. First, because two quarters of data are already available, a certain percentage of this agreement's annual costs and revenues (and corresponding cost coverage) has already been determined, thereby limiting the potential range of annual cost coverage. Second, the Public Representative and the Commission have a clearer understanding of the scope of this agreement through the Quarterly Reports and Responses to Information Requests, which reduces the potential range of annual cost coverage. While the Public Representative is confident in this agreement's ability to satisfy 39 U.S.C. § 3633(a), he nonetheless recommends that the Commission continue to require Quarterly Reports for this agreement.

Such confidence, however, was not provided by the Quarterly Reports alone. It was necessary for the Postal Service to provide supplementary workpapers, detailing how volume, revenue, and cost data were developed.⁵ The Commission should require that supplementary workpapers such as those filed in Response to CHIR No. 4 should be included in all future Quarterly Reports for this agreement.

⁵ USPS Response to Chairman's Information Request No. 4, Filed Under Seal, June 19, 2018; USPS Responses to Chairman's Information Request No. 4, Questions 6, 8, 9, and 13, Filed Under Seal, June 25, 2018.

III. Conclusion

The Public Representative therefore recommends the following:

1. The Commission approve continuation of this agreement for its full duration.
2. The Commission continue to require Quarterly Reports for this agreement.
3. The Commission expand its quarterly reporting requirements to include updated versions of the supplementary workpapers filed in Response to CHIR No. 4.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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